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Executive Summary: Nearly 100 volunteers worked together to develop a comprehensive list of water management and funding needs, study all possible sources of revenue that could be used to establish a dedicated funding source for water management activities, and develop a method to allocate these funds .

A list of water management and funding needs is appended to this report.

Recommendations: The legislature provide \$50 million dollars a year by dedicating a percentage of the state sales tax to provide 75% of the funds and implementing a user fee on the consumptive use of water to provide 25% the funds.

The legislature establish a 7-member water policy review body consisting of:

- 3 appointed by the governor (at least 2 of which are from the private sector),
- 3 by the legislature (at least 2 of which are from the private sector), and
- 1 by the University of Nebraska Board of Regents.

The legislature authorize the new water policy review body to select an executive director, develop a budget for administration and for the implementation of its program responsibilities, and arrange for the staff and office space needed to accomplish those tasks.

The legislature direct the body to develop a project review procedure, develop acceptable local project vetting, integrate local expressions of need with state water policy, develop a framework for water project decisions, recommend a state-level review and funding structure, and allocate available funds.

Securing Nebraska's Water Future

Overall Water

Management Goal:

To more effectively use the water in our state for both instream and out-of-stream beneficial purposes by increasing the quality and reducing the non-beneficial consumptive use of the state's water supplies.

To achieve this goal we need to:

- invest in research and data gathering,
- integrate the management of Nebraska's water supplies,
- improve our aging and antiquated infrastructure,
- build new infrastructure,
- promote coordination and collaboration among all water users, and
- secure a stable source of funds to implement the above.

Authorizing Legislation:

Neb. Rev. Stat. § 81-15,175 (4)(a) states that it is the intent of the Legislature that the Department of Natural Resources apply for an additional three-year grant for years 2014 – 2015 from the Nebraska Environmental Trust Fund that would be awarded fifty priority points in the ranking process as set forth in subdivision (2)(h) if the following criteria are met:

- the Natural Resources Committee of the legislature has examined options for water funding and has submitted a report electronically to the Clerk of the Legislature and the Governor by December 1, 2012 setting forth:
 - i. An outline and priority listing of water management and funding needs in Nebraska, including instream flows, residential, agricultural, recreations, municipal, and commercial needs, interstate obligations, water quality issues, and natural habitats preservation;
 - ii. An outline of state wide funding options which create a dedicated sustainable funding source to meet the needs set forth in the report;
 - iii. Recommendations for legislation.

Committee Actions: Nearly 100 volunteers worked together with the Natural Resources Committee and other members of the Legislature to complete the report and make recommendations to the legislature.

[Add additional description of committee's actions]

Task 1: An outline and priority listing of water management and funding needs in Nebraska, including instream flows, residential, agricultural, recreations, municipal, and commercial needs, interstate obligations, water quality issues, and natural habitats preservation.

The outline and prioritized list is appended to this report.

[Add appropriate language to describe the prioritized list of funding needs]

Task 2: An outline of state wide funding options which create a dedicated sustainable funding source to meet the needs set forth in the report.

LB 229 was based on the assumption that the Legislature will appropriate \$3,300,000 in matching funds on an annual basis. While providing additional resources for specific needs, LB 229 does not provide a comprehensive, long-term solution to Nebraska's water development funding needs. The goal of the task force was to establish a stable source of funds for water research, management, and development in Nebraska.

During a briefing for LR 314, references to "A Study of Resource Development Financing for Nebraska" were made because the recommendations of this study are still sound. While the amounts have changed with inflation, it was suggested that this study provides the last, best analysis of institutional structure, funding needs, infrastructure financing concepts, sources of capital for resources projects, managing private development, and future financing.

Background: Nebraska has a history of taking bold approaches to water management such as in the creation of natural resources districts (NRDs). They are a unique form of statewide local government with the taxing and other authorities to raise revenue, develop and implement programming, and construct water projects. Nebraska is rightly proud of this system and the national attention focused on our structure.

Another source of pride is Nebraska's commitment to public power. Nebraska's unique customer-owned public power system provides reliable electrical service at the lowest possible cost. The purpose and programs of the state's public power districts include water development for hydropower, energy production cooling, irrigation and recreation.

Previous and Current Major Water Development Funding **Activities**

Small Watershed and Flood Control Fund – 1963

LB 71 (1963) established this fund to help local sponsors acquire land rights for flood control projects. Most of the tracts have been associated with US Department of Agriculture Public Law (PL) 566 Watershed Projects planned and designed by the Natural Resources Conservation Service. However, three projects have been associated with levee work along the Missouri River, seven with a channel improvement project and one with a Nebraska Resources Development Fund Project. Current funding is limited to revenue from project land sales.

Modernization of Local Resource District Legislation – 1969

This Special Recommendation of the State Water Plan resulted in the adoption of legislation in 1969 authorizing the consolidation of a number of special purpose political subdivisions with limited authority over water and land resources matters into a new system of NRDs. The NRDs commenced operation in 1972 consolidating approximately 156 such limited subdivisions into 24 NRDs, since reduced by merger to 23. Local general and special taxing authorities were granted to the NRDs and those authorities have been modified and added to since then.

Framework Study of Nebraska's State Water Plan – 1971

This publication was intended to present a broad assessment of the means by which Nebraska's water and related land resources could be developed. It was intended to be the foundation for a continuing process of inventorying resources, defining needs, problems and opportunities, setting objectives, and examining available alternatives to meet the objectives identified. Funding of water and related land resources activities were recommended in the Study Report.

Funding Nebraska's Future Natural Resources Development - 1972

The Nebraska Legislature directed this statewide assessment of water resources needs and guide for future development. This study did not describe details of projects, but concentrated on the broad aspects of planning. It outlined a broad plan for the development of Nebraska's surface water resources and proposed reorganizing the many special purpose water districts into 24 NRDs to be organized along basin lines. The state water plan did not address groundwater development in any organized fashion, the inter-relationship between groundwater and surface waters, or address the possibility of conjunctive management, but

suggested that these omissions should be addressed in future water planning efforts.

Natural Resources Development Fund - 1974

This fund assists with the development and wise use of Nebraska's water and land resources by providing grants and/or loans to political subdivisions of the state or a state agency. DNR can also use these funds to acquire an interest in a project in the name of the state. In total, over 70 projects across Nebraska have received these funds. Since the initial \$1 million appropriation in 1975 through 2011, \$97.5 million has been appropriated by the Nebraska Legislature and has been matched by \$79 million in Federal funds and over \$69 million in local funds for a total of over \$245 million. The fund currently has an \$18.5 million cap on projects that can be approved for future funding, but has many more projects that are seeking approval.

Platte River Level B Study - 1976

"In the 1960's, it became evident from reduced streamflows and lowering groundwater levels that there was not enough water for unlimited future use. Framework and other studies completed late in that decade indicated that competition between water uses would continue...."

This study was made possible by federal funds (\$2.7 mil. FY 1972-1975). The Nebraska Legislature provided specific funding for several state agencies to participate in the study (estimated \$400,000-\$500,000). The overall purpose of the study was to formulate a comprehensive plan for conservation, development, and management of water and related land resources in the Platte Basin, thus providing a major contribution to planning in six of the thirteen river basins delineated by Nebraska in the Framework Study.

This study identified and analyzed specific problem areas. Specific projects and programs were analyzed for economic justification and environmental acceptability, but needed more detailed studies prior to implementation to reconfirm justification under current conditions. The study focus is on 10-25 years in the future, but problems and needs are analyzed to the year 2020.

Nebraska Soil and Water Conservation Fund - 1977

This fund provides state assistance to Nebraska landowners for installation of approved soil and water conservation measures that improve water quality, conserve water and help control erosion and sedimentation. The fund is administered by DNR and is coordinated by the NRDs at the local level with technical assistance by the Natural Resources Conservation Service. Initial funding of \$500,000 in 1979 grew

to a high of over \$4 million in 1990, but has fallen to \$2.3 million for 2012.

Water Independence Congress – 1983

In the early 1980s a 1/10% sales tax was proposed as part of Governor Bob Kerrey's Water Independence Congress. A Water Management Board was created to distribute these funds – upwards of \$10 million annually. The dedicated tax proposal was rejected, and no projects were funded by this board.

A Study of Resource Development Financing for Nebraska – 1983

The study undertaken by the NRDs developed a plan to address both rural and urban water funding needs, but the plan was not implemented.

Nebraska Resources Water Quality Fund - 2001

This fund was created in 2001 to provide state funds to NRDs for water quality programs. The fund receives money from the receipt of portions of certain fees fertilizer by the Nebraska Department of Agriculture for pesticide registration and applicator licenses which yielded about \$1 million per year. NRDs were required to provide \$3 match for each \$2 of state funds received. The rules establish a formula for distribution of monies to NRDs: 50% based on proportion of fertilizer sales in the NRD; 20% distributed equally among all participating districts; 20% on the basis of whether a district has a groundwater management area or clean water lakes designated area; and 10% can be withheld by the Natural Resources Commission (NRC) to distribute to NRDs for special projects. This legislation was not renewed after it was sunsetted.

Interrelated Water Management Plan Program (IWMPP) - 2006

The IWMPP was created in 2006 by LB 1226, Section 20. This grant program is meant to facilitate NRDs' duties arising under the Nebraska Groundwater Management and Protection Act. Funds distributed from the program to NRDs are based on NRC guidelines and must be supported by a minimum local revenue match comprising 20% of the total project cost. Initial funding in 2006 was \$2,424,436. In 2012 funding is \$500,000.

Water Resources Cash Fund (LB 229) - 2011

This fund is administered by the DNR to aid management actions taken to reduce consumptive use of water or to enhance stream flows or groundwater recharge in river basins, sub basins or reaches which are deemed by DNR as over or fully appropriated or are bound by an interstate compact, decree or a formal state contract or agreement. DNR may conduct a statewide assessment of short-term and long-term water

management activities and funding needs to meet requirements of statutes, compacts or decrees. The Nebraska Legislature authorized annual general fund appropriations of \$3.3 million for each fiscal year from FY 2011-12 through FY 2018-19. This legislation directs DNR to apply for a \$9.9 million grant from the Nebraska Environmental Trust Fund for use over a three year period to match the general fund appropriation for the Cash Fund.

Recommendations: The legislature should:

- Develop a stable funding program for generating \$50 million dollars a year for water development, including, but not limited to:
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 - dedicated state sales tax [probably new] to provide 75% of the funds, and a
 - user fee based, to provide 25% of the fund, on the consumptive use of water by all users including commercial and municipal interests.

A user fee would provide an incentive for users to make the more efficient use of the water they consume.

It is estimated that $\frac{1}{4}$ of 1 % of the sales tax in 2010-2011 would have generated \$62.399 million.

- Establish a 7-member water policy review body to allocate funds. The board should be established using the usual and customary process of setting-up criteria (i.e. geographical, experience, party registration staggered terms) to select representatives from all three separate appointing authorities. The Board will consist of
 - 3 appointed by the governor (at least 2 of which are from the private sector),
 - 3 by the legislature (at least 2 of which are from the private sector), and
 - 1 by the University of Nebraska Board of Regents.
- Authorize the new water policy review body to:
 - select an executive director,
 - develop a budget for administration and for the implementation of its program responsibilities, and
 - arrange for the staff and office space needed to accomplish those tasks.
- Direct the body to:

- develop a project review procedure,
- develop acceptable local project vetting,
- integrate local expressions of need with state water policy,
- develop a framework for water project decisions, and
- recommend a state-level review and funding structure
- allocate available funds.
 - Develop recommendations ~~for~~ to guide the water policy review body in distribution of state funds and actions to support state and local initiatives.
 - Develop legislation to implement the recommendations in this report.
- Develop an education piece on water use.